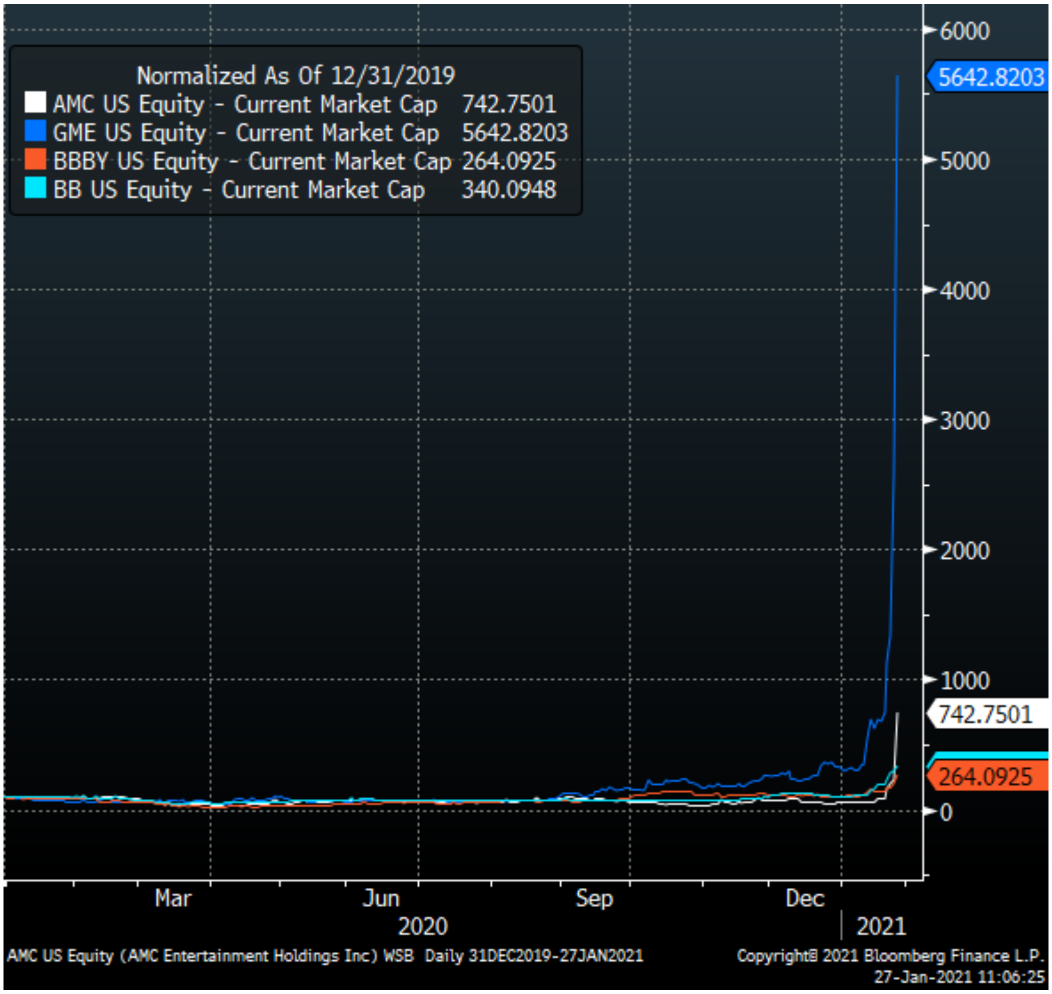
FROM THE DESK OF ERIK OROS

January 2021

We begin our first letter in 2021 amidst a historic moment in global markets. While analysts prepare for earnings reports for over 30% of the S&P market cap in the final week of the month, Wall Street is instead besotted by an incredible short squeeze of epic proportions. Perhaps the poster child of this phenomena, GameStop, has seen its shares rise well over 1000% in 10 short trading days. Other stocks touted on the popular "Wall Street Bets" Reddit group such as AMC have seen their shares surge in recent days. The movie theater operator whose business remains undoubtedly challenged is currently valued at multiples of is value before the pandemic struck. Throw the textbook out the window it seems.

The effects of this short squeeze and improbable distortions of value have limited effects on the overall market and the economy. However, this clear break down in the sacred pricing mechanism of capital markets is emblematic of the liquidity induced behavior that has driven valuation multiples to nose-bleed levels. Many have pointed to this behavior as a triumph of small investors. Unfortunately, rampant speculation of this scale might be the clearest indication to date that global markets sit on shoddy footing.

Select Squeeze Basket Market Caps

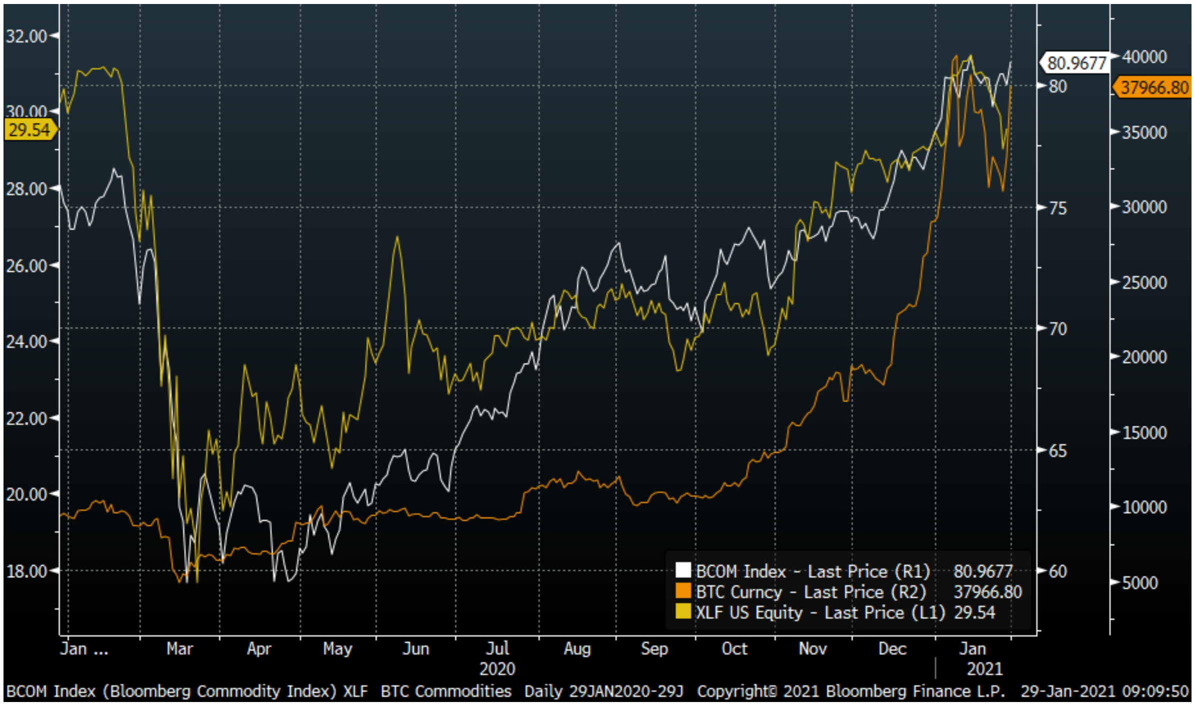


*Past performance does not guarantee future results.

Perhaps most concerning is the eroding of public confidence in markets, custodians, brokers and the system that governs efficient markets, combined with a regulatory authority that shows little concern with the consequences. When asked at the January FOMC press conference about the concern around the potential bubbles being formed in markets, Chairman Powell shrugged off concern as "not my/our responsibility." Further, the public uproar over the restrictive trading measures that brokers were forced to enact around this bonanza has led to ill-founded and dangerous conspiracy theories. Widely accepted is the narrative that the reason for the restrictions was to benefit the Wall-Street establishment, hedge-funds, and powers that be that are at reeling in losses. In fact, it is likely that these restrictions are a dangerous indication of the strain on liquidity being faced by such brokerage firms. New investors might be forgetting that above all liquidity and solvency of their custodian is paramount and not a given. Potential spill overs from a failure of such brokerage firms could be catastrophic to the market.

While much of the market focuses on the rampant speculation and the incredible saga that has been unfolding over the past few weeks, two of the world's biggest companies, Apple and Tesla, reported earnings this week, offering clues to what might drive top heavy and widely held indices in 2021. Despite by all accounts a resounding beat vs. expectations, Apple's shares traded lower, even in a risk on tape following earnings. Tesla similarly traded lower despite delivering its first profitable year ever. It is resoundingly clear that these stocks, emblematic of much of the market are driven by momentum and multiple expansion rather than backed by earnings growth and fundamentals. This price action is indicative to us of the factors that have driven the market higher and their failure to continue their advance suggest that we may be reaching levels where liquidity can no longer continue to drive continued speculative excess.

Commodities, Bitcoin, Financials



*Past performance does not guarantee future results.

The year also began with a continued focus on the reflation trade we have detailed in previous letters. Commodities, Bitcoin, and financial stocks have had their ascent interrupted as investors began to question in the eventuality of inflation and higher interest rates.

As we navigate these increasingly volatile markets, it important that we remain focused on investing in opportunities whose fortunes are not subject to the madness of crowds, regulatory scrutiny, or continued infusions of liquidity.

Robert Amoruso, CEO

Erik Oros, CIO

GIDEON STRATEGIC PARTNERS
1411 5TH STREET, SUITE 306
SANTA MONICA, CA 90401
INFO@GIDEONSP.COM
PHONE: 310.579.9560